

Docket:	:	A.16-07-002
Exhibit Number	:	ORA - _____
Commissioner	:	M. Picker
Administrative Law Judge	:	S. Park
ORA Witness	:	K. Choing



REPORT AND RECOMMENDATIONS ON RENTS, INSURANCE, AND CITIZENS ACQUISITION PREMIUM

Application 16-07-002

**San Francisco, California
February 13, 2017**

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MEMORANDUM

1 The requests and data presented by California American Water (“Cal Am”) in
2 Application (“A.”) 16-07-002 were examined in order to provide the Commission with
3 recommendations that represent the interests of ratepayers for safe and reliable service at
4 lowest cost. Suzie Rose is ORA’s project lead for the proceeding. Richard Rauschmeier
5 is ORA’s oversight supervisor. Paul Angelopulo and Kerriann Sheppard are ORA’s legal
6 counsel.

7 Although every effort was made to comprehensively review, analyze and provide
8 the Commission with recommendations on each ratemaking and policy aspect presented
9 in the application, the absence from ORA’s testimony of any particular issue does not
10 necessarily constitute its endorsement or acceptance of the underlying request,
11 methodology, or policy position related to that issue.

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I. RENTS

A. INTRODUCTION

This chapter summarizes ORA’s overall analysis and recommendations on Rent expenses for Cal Am districts for Test Year 2018.

In developing its recommendations, ORA analyzed Cal Am’s testimony, reports, supporting workpapers, responses to both the Minimum Data Requirements and Data Requests, and methods of estimating expenses.

B. SUMMARY OF RECOMMENDATIONS

ORA’s estimate for total Rent expenses in Test Year 2018 is \$1,818,793. Cal Am’s estimate is \$1,841,180.¹ Cal Am’s estimate exceeds ORA’s estimate by \$22,387. A district-by-district comparison is shown in Table 1-1.²

¹ ALL_CH04_O&M_RO.xlsx, tab “Summary of Costs – NARUC WS11”.
² ALL_CH04_O&M_RO.xlsx, tab “Sum Costs Before GO Alloc WS9A”.

Table 1-1. Comparison of Rent Estimates by District.

TY 2018	CAW	ORA	CAW - ORA
CAW Corporate	\$ 578,916	\$ 570,195	\$ 8,721
San Diego County District	\$ 220,642	\$ 220,642	\$ -
Monterey County District	\$ 514,391	\$ 514,391	\$ -
Monterey Wastewater	\$ 1,009	\$ 1,009	\$ -
Monterey - Toro	\$ 1,710	\$ 1,710	\$ -
Monterey - Garrapata	\$ 55	\$ 55	\$ -
Los Angeles County District	\$ 59,891	\$ 59,891	\$ -
Ventura County District	\$ 349,549	\$ 349,549	\$ -
LA-Baldwin Hills	\$ -	\$ -	\$ -
LA-Duarte	\$ -	\$ -	\$ -
LA-San Marino	\$ -	\$ -	\$ -
Monterey - Ambler	\$ -	\$ -	\$ -
Sacramento District	\$ 89,492	\$ 76,117	\$ 13,375
Larkfield District	\$ 25,526	\$ 25,235	\$ 291
TOTAL	\$ 1,841,180	\$ 1,818,793	\$ 22,387

C. DISCUSSION

Cal Am generally uses a five-year inflated average of recorded expenses from 2011-2015 to project Test Year 2018 expenses. In contrast, ORA generally uses a five-year average of recorded expenses from 2011-2015 and, after removing nonrecurring expenses, applies escalation factors to the five-year average to derive Test Year 2018 and Escalation Year 2019 estimates for the districts.³

1. Rents – Real Property

Cal Am's recorded expenses for Rents – Real Property for 2011-2015 are acceptable for use in the five-year inflated average. In addition to using the five-year inflated average for estimating purposes, Cal Am includes special adjustments as detailed below.

³ Exceptions to the general use of the five-year inflated average for estimation purposes are included in estimation as special adjustments.

a) **CAW Corporate**

Cal Am includes a special adjustment for the annual rents for its new San Francisco legal office and its new San Diego corporate office (SAP Account 54110016).⁴

A comparison of Cal Am's and ORA's estimates for the special adjustment is shown below in Table 1-2.

Table 1-2. San Diego Corporate Office & San Francisco Legal Office Rents Expense Estimates.

San Diego Corporate Office and San Francisco Legal Office Rent Expenses⁵			
	CAW	ORA	CAW - ORA
2016	\$ 600,261	\$ 469,717	\$ 130,544
2017	\$ 507,675	\$ 442,403	\$ 65,272
2018	\$ 535,910	\$ 535,910	\$ -
2019	\$ 535,910	\$ 535,910	\$ -
2020	\$ 535,910	\$ 535,910	\$ -
TOTAL	\$ 2,715,667	\$ 2,519,850	\$ 195,817

In response to data requests, Cal Am provided copies of the leasing agreements for both offices as well as supporting documentation for the special adjustment. Additionally, Cal Am provided an Excel workbook detailing how the special adjustment was calculated.

For the San Francisco legal office, Cal Am calculates the projected expenses using the base rents in the leasing agreement. These numbers are reasonable as it makes sense to use the leasing agreement to estimate expenses rather than a five-year average.⁶

⁴ ALL_CH04_O&M_WP_Other O&M Exp Adj.xlsx, tab "Detail".

⁵ Recorded expenses in 2016 and 2017 are less than authorized expenses due to Cal Am moving to a new corporate office. Thus, no five-year average is used to estimate future expenses. Using the current leasing agreement to estimate expenses rather than a five-year escalated average is reasonable.

⁶ Base rents are the monthly cost of rent, dependent on how long the property has been leased at the time that payment is remitted.

1 For the San Diego corporate office, Cal Am uses the base rents in the
2 leasing agreement in addition to the monthly cost of parking spaces for its twenty-
3 one employees at that office. Although the Excel workbook provided in Cal Am's
4 data request response noted that the leasing agreement provided for rent savings
5 through six months of rent credit for the San Diego corporate office, these savings
6 were not reflected in the final adjustment numbers.⁷ ORA subtracted these savings
7 from the adjustment (\$32,636 for four months in 2016 and two months in 2017).
8 For the years 2018-2020, a three-year average of the costs from 2018-2020 is used
9 to ensure costs are recovered with the attrition calculation.⁸ Thus, ORA's
10 adjustments do not affect the test year amount for the Rent costs of these two
11 offices.

12 **b) San Diego County District**

13 Cal Am includes a special adjustment for the lease for its field office in San
14 Diego (SAP Account 54110000).⁹ The adjustment was calculated using the base
15 rents in the current leasing agreement. Upon request, Cal Am provided the leasing
16 agreement for the San Diego field office. Cal Am's estimate is reasonable as it
17 makes sense to use the base rents described in the leasing agreement to estimate
18 expenses rather than a five-year average.¹⁰

19 Additionally, Cal Am includes a special adjustment for the State Lands
20 Commission lease fee & San Diego Unified Port fee increase (SAP Account
21 54110000).¹¹ In response to data requests, Cal Am provided receipts for the State
22 Lands Commission lease fee and San Diego Unified Port fee paid in 2011-2015,
23 and a copy of the notice for the San Diego Unified Port fee increase. This

⁷ Cal Am's response to Data Request ORA KC4-002.3 Rents, Q.1(a), provided herein as Attachment 2.

⁸ Cal Am's response to Data Request ORA KC4-002.3 Rents, Q.1(a).

⁹ ALL_CH04_O&M_WP_Other O&M Exp Adj.xlsx, tab "Detail".

¹⁰ Cal Am's response to Data Request ORA KC4-002 Rents, Q.1(c).

¹¹ ALL_CH04_O&M_WP_Other O&M Exp Adj.xlsx, tab "Detail".

additional adjustment is reasonable as the amount estimated by Cal Am is in accordance with the documents provided as detailed above.

c) Sacramento District

Cal Am includes a special adjustment for property taxes associated with a booster station in Folsom (SAP Account 54110016).¹²

A comparison of Cal Am's and ORA's numbers for the special adjustment is shown below in Table 1-3.

Table 1-3. Folsom Booster Station Property Tax Estimates.

Folsom Booster Station (Sacramento District)			
	CAW	ORA	CAW – ORA
2016	\$ 15,362	\$ 6,349	\$ 9,013
2017	\$ 15,416	\$ 6,349	\$ 9,067
2018	\$ 15,485	\$ 6,555	\$ 8,930
2019	\$ 15,455	\$ 6,754	\$ 8,701
TOTAL	\$ 61,716	\$ 26,007	\$ 35,710

In response to data requests, Cal Am provided previous invoices for the property taxes paid from 2011-2015. It provided three invoices from the Teichert Land Co., which requested \$5,128 for 2012-13, \$6,968 for 2013-14, and \$6,950 for 2014-15. The sum of these three invoices (\$19,047) was to be paid in full in 2015.¹³ Cal Am includes the \$19,047 total in its five-year inflated average. Also, Cal Am adds a special adjustment to its five-year average for these property taxes.

ORA averages the property taxes paid for the booster station and applies escalation factors for test year and escalation year estimates. Since ORA's edit to the special adjustment does not represent an increase in property taxes, but rather the projected costs of the property taxes, the \$19,047 paid in 2015 is excluded from its five-year inflated average in order to avoid double-counting.

¹² ALL_CH04_O&M_WP_Other O&M Exp Adj.xlsx, tab "Detail".

¹³ Cal Am's response to Data Request ORA KC4-002 Rents, Q.2(c), provided herein as Attachment 3.

1 Additionally, Cal Am includes a special adjustment for Meadowbrook
2 Office Service & Rentals and Insurance (SAP Account 54110000) in accordance
3 with Cal Am's acquisition of Meadowbrook Water Company. The special
4 adjustment is calculated using historical five-year average data from
5 Meadowbrook's 2011-2015 PUC report.¹⁴ These adjustments are reasonable as
6 they draw from recorded data on operations expenses for Meadowbrook.

7 **2. Rents – Equipment**

8 ORA generally agrees with Cal Am's estimate for expenses in the "Rents –
9 Equipment" category. ORA requested invoices for select expenses in the recorded
10 data for 2011-2015, which Cal Am provided and marked as either recurring
11 expenses or one-time expenses.¹⁵ One-time expenses which could reasonably be
12 considered recurring are included in ORA's five-year inflated average, whereas
13 those which could not be considered recurring are excluded from ORA's five-year
14 inflated average. Expenses excluded from ORA's five-year inflated average are
15 detailed below.

16 **a) Larkfield District**

17 Cal Am indicates that the following one-time expenses for rented
18 equipment occurred in 2011 and 2012. Cal Am did not provide reasonable
19 justification as to why similar expenditures would occur in the future. Thus, ORA
20 removed these expenses from the five-year average (see Table 1-4).

¹⁴ Cal Am's response to Data Request ORA KC4-002.2 Rents, Q.2(b), provided herein as Attachment 4.

¹⁵ Cal Am's response to Data Request ORA KC4-002.2 Rents, Q.1.

Table 1-4. Rented Equipment Expenses in Larkfield District Removed from 5-Year Inflated Average by ORA.

Year	Description	SAP Account	Dollar Amount
2011	Construction Equipment-Leases	54140014	\$ 363
	Rental of Office equipment	54140014	\$ 504
	Rental of Office equipment	54140014	\$ 20
	Lifting Equipment	54140014	\$ 373
		TOTAL	\$ 1,260
2012	Fork Lift	54140014	\$ 35
		TOTAL	\$ 35

Other one-time expenses were accompanied by reasonable justification indicating that similar expenditures would occur in the future, and thus were kept in the five-year inflated average. For example, some of the expenses were for rented storage tanks for use during pump testing in Baldwin Hills. At the time of the data request response, Cal Am planned to do pump testing in San Marino the following month.

b) Sacramento District

Cal Am indicates that the following one-time expenses for rented equipment occurred in 2012. Cal Am did not provide reasonable justification as to why similar expenditures would occur in the future. Thus, ORA removed these expenses from the five-year inflated average (see Table 1-5).

Table 1-5. Equipment Expenses in Sacramento District Removed from 5-Year Inflated Average by ORA.

Year	Description	SAP Account	Dollar Amount
2012	UNITED RENTALS- Compressor	54140013	\$ 1,000
	UNITED RENTALS- Compressor	54140013	\$ 378
		TOTAL	\$ 1,378

1 **D. CONCLUSION**

2 The Commission should adopt ORA's Rent expense estimates for Cal Am's
3 districts for Test Year 2018, which:

- 4 1) Adjust the CAW Corporate San Diego corporate office rent expenses to
5 reflect the cost of the new lease.
6 2) Adjust the special adjustment for the Folsom booster station property
7 taxes by using a three-year escalated average of recorded taxes and
8 removes the \$19,047 paid in property taxes from the five-year inflated
9 average.
10 3) Remove one-time Rents – Equipment expense items from Cal Am's
11 five-year inflated average in Larkfield District and Sacramento District.

12 These recommendations provide a more accurate forecast of Rent expenses
13 than Cal Am's proposed forecast, as discussed above. Therefore, the Commission
14 should adopt these recommendations.

II. INSURANCE

A. INTRODUCTION

This chapter summarizes ORA's analysis and recommendations on Insurance expenses for Cal Am districts for Test Year 2018.

In developing its recommendations, ORA analyzed Cal Am's testimony, reports, supporting workpapers, responses to both the Minimum Data Requirements and Data Requests, and methods of estimating expenses.

B. SUMMARY OF RECOMMENDATIONS

ORA's estimate for total Insurance expenses in Test Year 2018 is \$2,608,817. Cal Am's estimate is \$3,155,691.¹⁶ Cal Am's estimate exceeds ORA's estimate by \$546,874. A district-by-district comparison is shown in Table 2-1.¹⁷

Table 2-1. Comparison of Insurance Estimates by District.

TY 2018	CAW	ORA	CAW - ORA
CAW Corporate	\$ 2,979,110	\$ 2,435,157	\$ 543,953
San Diego County District	\$ 17,954	\$ 15,033	\$ 2,921
Monterey County District	\$ 63,425	\$ 63,425	\$ -
Monterey Wastewater	\$ 9,303	\$ 9,303	\$ -
Monterey - Toro	\$ 853	\$ 853	\$ -
Monterey - Garrapata	\$ 513	\$ 513	\$ -
Los Angeles County District	\$ 22,542	\$ 22,542	\$ -
Ventura County District	\$ 14,994	\$ 14,994	\$ -
Monterey - Ambler	\$ 1	\$ 1	\$ -
Sacramento District	\$ 42,507	\$ 42,507	\$ -
Larkfield District	\$ 4,489	\$ 4,489	\$ -
TOTAL	\$ 3,155,691	\$ 2,608,817	\$ 546,873

¹⁶ ALL_CH04_O&M_RO.xlsx, tab "Summary of Costs – NARUC WS11".

¹⁷ ALL_CH04_O&M_RO.xlsx, tab "Sum Costs Before GO Alloc WS9A".

1 **C. DISCUSSION**

2 Cal Am generally uses a five-year inflated average of recorded expenses
3 from 2011-2015 to project its Insurance expenses. ORA generally uses a five-year
4 average of recorded expenses from 2011-2015 and, after excluding non-recurring
5 expenses, applies escalation factors to the five-year average to derive Test Year
6 2018 and Escalation Year 2019 estimates for the districts.

7 Note that this report does not discuss group insurance. Analysis of Cal
8 Am's group insurance requests are discussed in the testimony of Julia Ende.

9 **1. Insurance – General Liability**

10 **a) CAW Corporate**

11 Cal Am includes a special adjustment for general liability insurance for
12 CAW Corporate (SAP Account 55710000) by using a two-year average of
13 recorded expenses from the years 2014 and 2015 to project future expenses. Cal
14 Am asserts that the two-year average provides a more accurate representation of
15 future expenses than a five-year inflated average.¹⁸

16 ORA does not agree that the two-year average provides a more accurate
17 representation of future expenses. Future expenses are best represented by a three-
18 year average increase applied to the five-year average to determine test year and
19 escalation year projections.

20 Cal Am's general liability insurance recorded expenses for CAW Corporate
21 from 2011-2015 are shown below in Table 2-2.

¹⁸ *Direct Testimony of Todd Pray*, page 13.

Table 2-2. General Liability Insurance Expenses for CAW Corporate.

CAW Corporate Insurance - General Liability Expenses		
Year	Recorded Expenses	% Increase from previous year
2011	\$ 905,884	
2012	\$ 1,103,311	22%
2013	\$ 1,278,347	16%
2014	\$ 1,634,106	28%
2015	\$ 2,501,358	53%

When asked to explain the increases in general liability insurance expenses for each year (and in particular the increase from 2014 to 2015 of 53%), Cal Am responded that several factors were responsible for this increase.¹⁹ The factors were as follows:

- 1) Aging infrastructure
- 2) Medical cost escalation
- 3) Litigated matters
- 4) Medical cost inflation

Cal Am did not provide specific reasons as to why general liability insurance expenses sharply increased by 53% from 2014 to 2015. Cal Am's testimony states that general liability insurance costs "have been steadily increasing in recent years and California American Water has been informed by the Insurance and Risk Management team that the increases are likely to continue".²⁰ ORA requested the referenced analysis. Cal Am delivered a response similar to the one given regarding the yearly increases in insurance expenses discussed above.^{21, 22}

¹⁹ Cal Am's response to Data Request ORA KC4-003 Insurance, Q.3(a), provided herein as Attachment 5.

²⁰ *Direct Testimony of Todd Pray*, page 13.

²¹ Cal Am's response to Data Request ORA KC4-003 Insurance, Q.4(a), provided herein as Attachment 6.

²² Cal Am's response to Data Request ORA KC4-003 Insurance, Q.3(b), provided herein as Attachment 7.

The year of 2015 appears to be an atypical year with regards to general liability insurance expenses. However, there is an upward trend in general liability expenses. Thus, using an average increase is more reasonable than using either a five-year average or a two-year average to project future expenses. The percentage increase in recorded expenses from 2014 to 2015 is nearly double the next highest percentage increase in recorded expenses (from 2013 to 2014), which is highly unusual, and therefore considered an outlier. Thus, utilizing a three-year average of percentage changes from 2011-2012, 2012-2013, and 2013-2014 (yielding an average increase of 21.83%) is a more reasonable method of estimating the anticipated increases in general liability insurance. This average increase is applied to the five-year average of recorded expenses and inflated to test year and escalation year amounts. Table 2-3 compares the methods of projecting expenses.

Table 2-3. Projection Methods for CAW Corporate General Liability Insurance.²³

Estimation Method	Dollar Amount
5-year average	\$ 1,484,601
2-yr average	\$ 2,067,732
5-year average $\times (1 + 21.83\%)^{24}$	\$ 1,808,680

b) San Diego County District

Cal Am includes in its five-year average of general liability insurance expenses a \$13,000 expense in 2011 from a settlement.²⁵ Because this settlement involves an issue between the company and its employee, the expenses for it should not be paid by ratepayers. Therefore, this \$13,000 should be excluded from

²³ Five-year and two-year average taken from data in ALL_CH04_O&M_RO.xlsx, tab “OM Data Rec w-Trf-Elim WS3”. The figures in this table do not take escalation factors into account.

²⁴ 21.83% is the three-year average increase calculated by averaging the percentage changes in CAW Corporate general liability insurance expenses from 2011-2014.

²⁵ Cal Am’s response to Data Request ORA KC4-003.2 Insurance, Q.1, provided herein as Attachment 8.

1 the five-year inflated average of general liability insurance expenses, and is
2 excluded in ORA's calculations.

3 **2. Insurance – Other**

4 For Cal Am's Insurance – Other expenses, ORA sampled a number of the
5 expenses in these categories, reviewed the expenses and justifications, and found
6 the expenses to be reasonable.

7 **3. Insurance – Workers Compensation**

8 For Cal Am's Insurance – Workers Compensation expenses, ORA sampled
9 a number of the expenses in these categories, reviewed the expenses and
10 justifications, and found the expenses to be reasonable.

11 **D. CONCLUSION**

12 The Commission should adopt ORA's Insurance expense estimates for Cal
13 Am's districts for Test Year 2018, which:

- 14 1) Adjust Cal Am's general liability insurance expense estimates for CAW
15 Corporate by increasing the five-year average of general liability
16 insurance expenses by a three-year average increase from 2011-14, and
17 escalating to test year and escalation year amounts.
- 18 2) Remove the \$13,000 settlement expense item from 2011 under
19 Insurance – General Liability (San Diego County District) from the
20 five-year inflated average.
- 21 3) Accept Cal Am's Insurance expense estimates for Insurance – Other and
22 Insurance – Workers Compensation.

23 These recommendations provide a more accurate forecast of Insurance
24 expenses than Cal Am's proposed forecast, as discussed above. Therefore, the
25 Commission should adopt these recommendations.

III. CITIZENS ACQUISITION PREMIUM

A. INTRODUCTION

This chapter summarizes ORA's analysis and recommendations on the Citizens Acquisition Premium recovery for Cal Am districts for Test Year 2018.

In developing its recommendations, ORA analyzed Cal Am's testimony, reports, supporting workpapers, responses to both the Minimum Data Requirements and Data Requests, and methods of estimating expenses.

B. SUMMARY OF RECOMMENDATIONS

Cal Am's total estimate for Citizens Acquisition Premium recovery in Test Year 2018 is \$3,518,000.²⁶ Cal Am's numbers are reasonable. A district-by-district comparison is shown in Table 3-1 below.²⁷

Table 3-1. Comparison of Citizens Acquisition Premium Estimates by District.

District	CAW	ORA	CAW - ORA
CAW Corporate	\$ -	\$ -	\$ -
San Diego County District	\$ 399,747	\$ 399,747	\$ -
Monterey County District	\$ 752,688	\$ 752,688	\$ -
Monterey Wastewater	\$ -	\$ -	\$ -
Monterey - Toro	\$ -	\$ -	\$ -
Monterey - Garrapata	\$ -	\$ -	\$ -
Los Angeles County District	\$ 525,557	\$ 525,557	\$ -
Ventura County District	\$ 397,628	\$ 397,628	\$ -
LA-Baldwin Hills	\$ -	\$ -	\$ -
LA-Duarte	\$ -	\$ -	\$ -
LA-San Marino	\$ -	\$ -	\$ -
Monterey - Ambler	\$ -	\$ -	\$ -
Sacramento District	\$ 1,388,290	\$ 1,388,290	\$ -
Larkfield District	\$ 54,090	\$ 54,090	\$ -
TOTAL	\$ 3,518,000	\$ 3,518,000	\$ -

²⁶ ALL_CH04_O&M_WP_Citizen Acq Adj.xlsx, tab "OUT_Citizen Acq Prem".

²⁷ Ibid.

1 **C. DISCUSSION**

2 In 2000, Cal Am and Citizens Utilities Company of California (“Citizens”)
3 filed a joint application for an order authorizing Cal Am to acquire Citizens.²⁸ The
4 application requested authorization for Citizens to sell and transfer its water utility
5 assets and indebtedness to Cal Am and withdraw from the water utility business,
6 and for Cal Am to acquire all of Citizens’ water utility assets and indebtedness and
7 provide service to Citizens’ customers.

8 The Commission authorized the acquisition in 2001 at a purchase price of
9 \$161.32 million.²⁹ The net book value of Citizens’ assets at the time was \$93.957
10 million.³⁰ Because Cal Am purchased Citizens’ assets at a price above the net
11 book value, Cal Am proposed recovery of the premium through the following
12 proposal:

13 *Cal Am would book the acquisition premium for California regulated assets*
14 *as an acquisition adjustment to be amortized mortgage-style over 40 years*
15 *beginning in 2002. This mortgage-style amortization represents the return*
16 *of and on the acquisition adjustment.*³¹

17 In 2010, Cal Am filed its application for a general rate case, in which it
18 requested a revenue requirement schedule for the Citizens Acquisition Premium.³²

²⁸ A.00-05-015.

²⁹ D.01-09-057, p. 66.

³⁰ Cal Am’s acquisition of Citizens entailed a purchase premium of \$67.363 million over the net book value. Of that purchase premium, approximately \$2.810 million represented the excess of fair market value over net book value for non-regulated assets. This left an acquisition premium to be recovered by Cal Am ratepayers of approximately \$64.553 million.

³¹ D.01-09-057, p. 67.

³² A.10-07-007, *Direct Testimony of David P. Stephenson*, p. 58.

1 The Commission authorized Cal Am's proposed revenue requirement schedule in
2 2012.^{33, 34}

3 The amounts for the Citizens Acquisition Premium in this GRC are in
4 accordance with the authorized revenue requirement schedule from the 2010 GRC.
5 Thus, Cal Am's requests for recovery of the Citizens Acquisition Premium are
6 reasonable.

7 **D. CONCLUSION**

8 The Commission should adopt Cal Am's Citizens Acquisition Premium
9 estimates for Cal Am's districts for Test Year 2018.

³³ D.12-06-016, page 17.

³⁴ Cal Am's Citizens Acquisition Premium revenue requirement schedule, provided herein as Attachment 9.

Attachment 1: Witness Qualifications

QUALIFICATIONS AND PREPARED TESTIMONY OF KELSEY CHOING

Q.1 Please state your name and business address.

A.1 My name is Kelsey Choing. My business address is 505 Van Ness Avenue, San Francisco, CA 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am a Public Utilities Regulatory Analyst in the Office of Ratepayer Advocates – Water Branch.

Q.3 Briefly describe your pertinent educational background.

A.3 I attained a Bachelor's of Science from Carnegie Mellon University in 2015, where I double-majored in Economics and Policy & Management.

Q.4 Briefly describe your professional experience.

A.4 As an undergraduate student, I interned with the California Public Utilities Commission in the Administrative Law Judge division, where I worked with the Intervenor Compensation branch. Following graduation from university, I joined the Office of Ratepayer Advocates. Prior to working on this proceeding, I aided ORA's California Water Service Company 2015 GRC team with obtaining estimates for plant and A&G, in addition to issues with rate design, special requests, and pilot programs.

Q.5 What is your responsibility in this proceeding?

A.5 I am responsible for examining the expense categories of rents, insurance, and the Citizens Acquisition Premium.

Q.6 Does that conclude your direct testimony?

A.6 Yes, at this time.

**Attachment 2: Cal Am's Response to Data Request
ORA KC4-002.3 Rents, Q.1(a)**

Period from/to		Monthly Rent	Parking fee	Total Monthly Rent
1	12	28,436.10	4,200	32,636
13	24	29,431.36	4,200	33,631
25	36	30,461.46	4,200	34,661
37	48	31,527.61	4,200	35,728
49	60	32,631.08	4,200	36,831
61	72	33,773.17	4,200	37,973
73	84	34,955.23	4,200	39,155
85	96	36,178.66	4,200	40,379
97	104	37,444.91	4,200	41,645

Year	Month	Rent	Rent Saving ⁽¹⁾
2016	1	7/1/2016	32,636
2016	2	8/1/2016	32,636
2016	3	9/1/2016	32,636
2016	4	10/1/2016	32,636
2016	5	11/1/2016	32,636
2016	6	12/1/2016	32,636
2017	7	1/1/2017	32,636
2017	8	2/1/2017	32,636
2017	9	3/1/2017	32,636
2017	10	4/1/2017	32,636
2017	11	5/1/2017	32,636
2017	12	6/1/2017	32,636
2017	13	7/1/2017	33,631
2017	14	8/1/2017	33,631
2017	15	9/1/2017	33,631
2017	16	10/1/2017	33,631
2017	17	11/1/2017	33,631
2017	18	12/1/2017	33,631
2018	19	1/1/2018	33,631
2018	20	2/1/2018	33,631
2018	21	3/1/2018	33,631
2018	22	4/1/2018	33,631
2018	23	5/1/2018	33,631
2018	24	6/1/2018	33,631
2018	25	7/1/2018	34,661
2018	26	8/1/2018	34,661
2018	27	9/1/2018	34,661
2018	28	10/1/2018	34,661
2018	29	11/1/2018	34,661
2018	30	12/1/2018	34,661
2019	31	1/1/2019	34,661
2019	32	2/1/2019	34,661

2019	33	3/1/2019	34,661
2019	34	4/1/2019	34,661
2019	35	5/1/2019	34,661
2019	36	6/1/2019	34,661
2019	37	7/1/2019	35,728
2019	38	8/1/2019	35,728
2019	39	9/1/2019	35,728
2019	40	10/1/2019	35,728
2019	41	11/1/2019	35,728
2019	42	12/1/2019	35,728
2020	43	1/1/2020	35,728
2020	44	2/1/2020	35,728
2020	45	3/1/2020	35,728
2020	46	4/1/2020	35,728
2020	47	5/1/2020	35,728
2020	48	6/1/2020	35,728
2020	49	7/1/2020	36,831
2020	50	8/1/2020	36,831
2020	51	9/1/2020	36,831
2020	52	10/1/2020	36,831
2020	53	11/1/2020	36,831
2020	54	12/1/2020	36,831
2021	55	1/1/2021	36,831
2021	56	2/1/2021	36,831
2021	57	3/1/2021	36,831
2021	58	4/1/2021	36,831
2021	59	5/1/2021	36,831
2021	60	6/1/2021	36,831
2021	61	7/1/2021	37,973
2021	62	8/1/2021	37,973
2021	63	9/1/2021	37,973
2021	64	10/1/2021	37,973
2021	65	11/1/2021	37,973
2021	66	12/1/2021	37,973
2022	67	1/1/2022	37,973
2022	68	2/1/2022	37,973
2022	69	3/1/2022	37,973
2022	70	4/1/2022	37,973
2022	71	5/1/2022	37,973
2022	72	6/1/2022	37,973
2022	73	7/1/2022	39,155
2022	74	8/1/2022	39,155
2022	75	9/1/2022	39,155
2022	76	10/1/2022	39,155
2022	77	11/1/2022	39,155
2022	78	12/1/2022	39,155
2023	79	1/1/2023	39,155

2023	80	2/1/2023	39,155
2023	81	3/1/2023	39,155
2023	82	4/1/2023	39,155
2023	83	5/1/2023	39,155
2023	84	6/1/2023	39,155
2023	85	7/1/2023	40,379
2023	86	8/1/2023	40,379
2023	87	9/1/2023	40,379
2023	88	10/1/2023	40,379
2023	89	11/1/2023	40,379
2023	90	12/1/2023	40,379
2024	91	1/1/2024	40,379
2024	92	2/1/2024	40,379
2024	93	3/1/2024	40,379
2024	94	4/1/2024	40,379
2024	95	5/1/2024	40,379
2024	96	6/1/2024	40,379
2024	97	7/1/2024	41,645
2024	98	8/1/2024	41,645
2024	99	9/1/2024	41,645
2024	100	10/1/2024	41,645
2024	101	11/1/2024	41,645
2024	102	12/1/2024	41,645
2025	103	1/1/2025	41,645
2025	104	2/1/2025	41,645

(1) Reflects 6 months of rent credit per lease terms.

- (4) DATE OF LEASE: as of March 31, 2016
- (5) LEASE TERM: One Hundred and Four (104) full calendar months
- (6) PROJECTED COMMENCEMENT DATE: July 1, 2016
- (7) PROJECTED EXPIRATION DATE: One hundred and four (104) full calendar months after the Commencement Date
- (8) MONTHLY BASE RENT:
- | <u>Period from/to</u> | <u>Monthly</u> |
|-----------------------|----------------|
| Month 1 – Month 12* | \$28,436.10 |
| Month 13 – Month 24 | \$29,431.36 |
| Month 25 – Month 36 | \$30,461.46 |
| Month 37 – Month 48 | \$31,527.61 |
| Month 49 – Month 60 | \$32,631.08 |
| Month 61 – Month 72 | \$33,773.17 |
| Month 73 – Month 84 | \$34,955.23 |
| Month 85 – Month 96 | \$36,178.66 |
| Month 97 – Month 104 | \$37,444.91 |

Year	Rent
2016	493,416.6
2017	397,604.8
2018	409,756.9
2019	422,334.4
2020	435,352.1

Rent-Old Office
49,600

**Attachment 3: Cal Am's Response to Data Request
ORA KC4-002 Rents, Q.2(c)**

Property Tax
Property Tax Statements Grouped by Statement Group
2014 Statement Year
American Water Works Company, Inc.

State	Statement Group	Payee	Due Date	Entry Date	Approval Date	Release Date	Void Date	Install ID	Profit Center ID	Cost Center GL Account	Internal Order Amount	WBS#	Penalty Amount	Penalty Account	Interest Amount	Interest Account	Credit Amount	Credit Account
California	CA-Teichert Land Co-Sacramento (1015)	CA-Teichert Land Co.	04/10/15	03/10/15		204253		5	35150	54110016	\$6,350.33	E15-1600-156005	\$0.00	88520100	\$0.00	88520000	\$0.00	
078-0190-028-0000	Fully Paid	Waiting for Approval	04/10/15	03/10/15				3	35151	54110016	\$5,128.25		\$0.00	88520100	\$0.00	88520000	\$0.00	
078-0190-028-0000	Fully Paid	Waiting for Approval	04/10/15	03/10/15				4	35152	54110016	\$6,358.41		\$0.00	88520100	\$0.00	88520000	\$0.00	
Total for California American Water Co:											\$19,046.99		\$0.00		\$0.00		\$0.00	
Total for 2014 Statement Year:											\$19,046.99		\$0.00		\$0.00		\$0.00	

**Attachment 4: Cal Am's Response to Data Request
ORA KC4-002.2 Rents**

California-American Water Company

APPLICATION NO. A.16-07-002
DATA REQUEST RESPONSE

Response Provided By: Zhaoyi Chen
Title: Financial Analyst
Address: California-American Water Company
4701 Beloit Drive, Sacramento, CA 95838

ORA Request: ORA A.16-07-002 KC4-002.2
Company Number: CAW-ORA A.16-07-002 KC4-002.2 Q002b
Date Received: November 9, 2016
Date Response Due: November 18, 2016
Subject Area: Rents REVISED

DATA REQUEST:

2. Refer to the file "ALL_CH04_O&M_WP_Other O&M Exp Adj", tab "Detail".

- b. In the response to ORA DR A1607002 KC4-002 Rents, Cal Am indicated that the company was still in the process of acquiring Meadowbrook and therefore could not provide a leasing agreement for "Meadowbrook – Office Service & Rentals and Insurance" (SAP Account 54110000).

Explain how the projected costs for "Meadowbrook – Office Service & Rentals and Insurance" were calculated.

CAL-AM'S RESPONSE:

"Meadowbrook-Office Service & Rentals and Insurance" were calculated using historical 5-year average data from Meadowbrook's 2011-2015 PUC report.

**Attachment 5: Cal Am's Response to Data Request
ORA KC4-003 Insurance, Q.3(a)**

California-American Water Company

APPLICATION NO. A.16-07-002
DATA REQUEST RESPONSE

Response Provided By: Roger Hammer
Title: Director, Insurance and Risk Management
Address: American Water Works Service
131 Woodcrest Road, Cherry Hill, NJ 08003
ORA Request: ORA A.16-07-002 KC4-003
Company Number: CAW-ORA A.16-07-002 KC4-003 Q003a
Date Received: October 19, 2016
Date Response Due: October 31, 2016
Subject Area: Insurance

DATA REQUEST:

3. Refer to the file "ALL_CH04_O&M_RO," tab "Y_OM Data Rec WS1."
 - a. Explain the yearly increases in "Insurance – General Liability" expenses for CAW Corporate from 2011 through 2014 (20% in 2012, 16% in 2013, 28% in 2014).

CAL-AM'S RESPONSE:

Overall, general liability premiums have increased over five years, workers' compensation premiums have decreased over five years, and Other Insurances have increased over five years.

1. It is difficult to list all the reasons for increases/decreases over the years for General Liability. But we may be able to categorize the factors which influenced the claims:

- a. Aging infrastructure. Another factor for the deterioration of the property damage claims experience is our aging infrastructure.

- b. Medical cost escalation. The life of workers' compensation claims can be as long as 30 years or more. In addition, workers compensation regulations are favorable to an injured or ill employee, and with improvements in medical treatment technology, employees may elect to have expensive procedures like spinal fusion as well as replacement surgery for their knees, shoulders, etc. Recovery related to these procedures is lengthy and employees are indemnified. Further, while the original injury event occurred several years ago, surgery may not have been performed until recently.

California-American Water Company

APPLICATION NO. A.16-07-002
DATA REQUEST RESPONSE

c. Litigated matters. Expenses, rulings and verdicts associated with litigated claims. Increased medical cost and treatment also impact the settlement valuation of these claims.

d. Medical cost inflation continues to rise.

The factors cited above for the claims experience deterioration are external influences outside any company's control. For example, it is difficult to predict when a natural catastrophe will occur and what its financial impact will be.

2. In the case of Workers' Compensation, the Company's experience rating and focus on safety have had a positive effect on the premiums.

3. For Other Insurances, the Company has had increases in premiums for Property Insurance due to increases in insured values and claims experience.

**Attachment 6: Cal Am's Response to Data Request
ORA KC4-003 Insurance, Q.4(a)**

California-American Water Company

APPLICATION NO. A.16-07-002
DATA REQUEST RESPONSE

Response Provided By: Roger Hammer
Title: Director, Insurance and Risk Management
Address: American Water Works Service
131 Woodcrest Road, Cherry Hill, NJ 08003
ORA Request: ORA A.16-07-002 KC4-003
Company Number: CAW-ORA A.16-07-002 KC4-003 Q004a
Date Received: October 19, 2016
Date Response Due: October 31, 2016
Subject Area: Insurance

DATA REQUEST:

4. Refer to the **Direct Testimony of Todd J. Pray**.
 - a. In A30, it is stated that "California American Water has been informed by the Insurance and Risk Management team that the increases are likely to continue." Please provide the Insurance and Risk Management team's analysis that led to this conclusion.

CAL-AM'S RESPONSE:

The Company has had claims experience deterioration due to external influences outside any company's control. It is difficult to predict when a natural catastrophe will occur and what its financial impact will be. In addition, medical cost inflation continues to rise. However, the Company's current expectation is that the claims experience will be trending flat.

**Attachment 7: Cal Am's Response to Data Request
ORA KC4-003 Insurance, Q.3(b)**

California-American Water Company

APPLICATION NO. A.16-07-002
DATA REQUEST RESPONSE

Response Provided By: Roger Hammer
Title: Director, Insurance and Risk Management
Address: American Water Works Service
131 Woodcrest Road, Cherry Hill, NJ 08003
ORA Request: ORA A.16-07-002 KC4-003
Company Number: CAW-ORA A.16-07-002 KC4-003 Q003b
Date Received: October 19, 2016
Date Response Due: October 31, 2016
Subject Area: Insurance

DATA REQUEST:

3. Refer to the file "ALL_CH04_O&M_RO," tab "Y_OM Data Rec WS1."
 - b. From 2014 to 2015, "Insurance – General Liability" expenses for CAW Corporate increased from \$1.6 million to \$2.5 million (a 53% increase). Provide a detailed explanation of the causes of this increase.

CAL-AM'S RESPONSE:

Please refer to response ORA KC4-003 Q003a.

**Attachment 8: Cal Am's Response to Data Request
ORA KC4-003.2 Insurance, Q.1**

California-American Water Company

APPLICATION NO. A.16-07-002
DATA REQUEST RESPONSE

Response Provided By: Zhaoyi Chen
Title: Financial Analyst
Address: California-American Water Company
4701 Beloit Drive, Sacramento, CA 95838

ORA Request: ORA A.16-07-002 KC4-003.2
Company Number: CAW-ORA A.16-07-002 KC4-003.2 Q001a
Date Received: November 9, 2016
Date Response Due: November 18, 2016
Subject Area: Insurance REVISED

DATA REQUEST:

1. The following data was taken from the file "ALL_CH04_O&M_RO," tab "OM Data Rec w-Trf-Elim".

District #	District Name	SAP Account #	SAP Account # Description	NARUC #	2011	2012	2013	2014	2015
1530	San Diego County District	55710000	Insurance General Liability	794	\$ 13,000.00	\$ -	\$ -	\$ 1,603.81	\$ 2,082.78
1530	San Diego County District	55730000	Insurance Other	793	\$ 1,975.00	\$ -	\$ -	\$ -	\$ -
1550	Los Angeles County District	55730000	Insurance Other	793	\$ 2,575.00	\$ -	\$ -	\$ -	\$ -
1551	Ventura County District	55730000	Insurance Other	793	\$ 5,339.00	\$ 4,839.00	\$ -	\$ -	\$ -
1560	Sacramento District	55730000	Insurance Other	793	\$ 2,346.00	\$ 494.00	\$ 5,685.00	\$ -	\$ -

- a. Provide a detailed breakdown of all the financial transactions that each amount comprises by completing each of the five tabs in Attachment 1.

California-American Water Company

APPLICATION NO. A.16-07-002
DATA REQUEST RESPONSE

CAL-AM'S RESPONSE:

Please refer to California American Water's attachment ORA KC4-003.2 Q001-Attachment 1.

Data Request No. - ORA A.16-07-002 KC4-003.2 Insurance Attachment 1									
Recorded Insurance Expenses for 2011 for Each District									
Insurance General Liability									
District Name	District Number	Description	SAP Account number	PUC Account Number	Dollar Amount	Invoice Reference			
San Diego	1530	Injuries and Damages - Grady & Associat	55710000	794	13,000	Non invoice item - Settlement. Cal Am is still searching for available documentation and can provide a supplemental response depending on what additional information is found.			
				TOTAL					
Insurance Other									
District Name	District Number	Description	SAP Account number	PUC Account Number	Dollar Amount	Invoice Reference			
San Diego	1530	Property Insurance	55730000	793	1,975	ORA KC4-003.2.Q001b Attachment 1			
					1,975				
Total									
Los Angeles	1550	Property Insurance	55730000	793	300	ORA KC4-003.2.Q001b Attachment 2			
Los Angeles	1550	Property Insurance	55730000	793	1,975	ORA KC4-003.2.Q001b Attachment 3			
Los Angeles	1550	Property Insurance	55730000	793	300	ORA KC4-003.2.Q001b Attachment 4			
Total					2,575				
Ventura	1551	Property Insurance	55730000	793	500	ORA KC4-003.2.Q001b Attachment 5			
Ventura	1551	Property Insurance	55730000	793	889	ORA KC4-003.2.Q001b Attachment 6			
Ventura	1551	Property Insurance	55730000	793	3,950	ORA KC4-003.2.Q001b Attachment 7			
Total					5,339				
Sacramento	1560	Property Insurance	55730000	793	2,346	ORA KC4-003.2.Q001b Attachment 10			
Total					2,346				
				TOTAL	12,235				

**Attachment 9: Cal Am's Citizens Acquisition
Premium Revenue Requirement
Schedule**

EXHIBIT E - CHAPTER 1 SECTION 8 - TABLE 3 CALIFORNIA AMERICAN WATER MONTEREY DISTRICT												
ANALYSIS OF SYNERGY SAVINGS AND REVENUE REQUIREMENT OF THE PREMIUM												
2008 GENERAL RATE CASE												
	1	2	3	4	5	6	7	8	9	10	11	12
YEAR	Revenue Req Of the Premium	Cal-Am Synergies	Net Premium To Citizens Prop.	Cost of Capital Savings	CAP-X Invest Savings	Depreciation Plus - Savings	Net Removal of Citizens Hist. Exp.	Cal-Am Corporate Expenses	EST Cal-Am added Direct Expenses	Net Remaining Synergies	From 2006 Rate Case	Difference
		For 2008 and on - Column 1 times the Annual Allocation Percentage	Column 1 minus Column 2	See Cost of Capital Spreadsheet						Column 3 minus Columns 4 through 9		Column 12 minus Column 11
2005	\$4,867,000	\$2,433,500	\$2,433,500	\$1,454,697	\$1,125,000	\$306,670	\$5,517,454	(\$3,868,600)	(\$1,361,214)	(\$740,507)	(\$646,483)	\$94,024
2006	\$4,734,000	\$2,367,000	\$2,367,000	\$1,660,457	\$1,688,000	\$438,000	\$5,705,047	(\$3,945,900)	(\$1,388,393)	(\$1,790,211)	(\$1,802,906)	(\$12,695)
2007	\$4,770,000	\$2,385,000	\$2,385,000	\$2,492,757	\$2,564,000	\$619,868	\$5,899,019	(\$4,024,800)	(\$1,415,738)	(\$3,750,106)	(\$1,936,024)	\$1,814,081
2008	\$4,631,000	\$2,732,290	\$1,898,710	\$2,757,034	\$3,177,000	\$811,227	\$6,092,990	(\$4,158,200)	(\$1,525,189)	(\$5,255,652)	(\$2,664,249)	\$2,591,403
2009	\$4,491,100	\$2,649,749	\$1,841,351	\$2,965,997	\$3,781,000	\$975,854	\$6,286,962	(\$4,176,868)	(\$1,382,152)	(\$6,609,442)	(\$2,968,484)	\$3,640,958
2010	\$4,352,000	\$2,667,680	\$1,784,320	\$3,197,467	\$4,358,000	\$1,142,202	\$6,480,933	(\$4,302,174)	(\$1,424,274)	(\$7,667,834)	(\$3,271,489)	\$4,396,345
2011	\$4,216,000	\$2,487,440	\$1,728,560									
2012	\$4,081,000	\$2,407,790	\$1,673,210									
2013	\$3,945,000	\$2,327,550	\$1,617,450									
2014	\$3,812,000	\$2,249,080	\$1,562,920									
2015	\$3,681,000	\$2,171,790	\$1,509,210									
2016	\$3,550,000	\$2,094,500	\$1,455,500									
2017	\$3,495,000	\$2,062,050	\$1,432,950									
2018	\$3,518,000	\$2,075,620	\$1,442,380									
2019	\$3,541,000	\$2,089,190	\$1,451,810									
2020	\$3,567,000	\$2,104,530	\$1,462,470									
2021	\$3,596,000	\$2,121,640	\$1,474,360									
2022	\$3,628,000	\$2,140,520	\$1,487,480									
2023	\$3,664,000	\$2,161,760	\$1,502,240									
2024	\$3,700,000	\$2,183,000	\$1,517,000									
2025	\$3,742,000	\$2,207,780	\$1,534,220									
2026	\$3,789,000	\$2,235,510	\$1,553,490									
2027	\$3,839,000	\$2,265,010	\$1,573,990									
2028	\$3,893,000	\$2,296,870	\$1,596,130									
2029	\$3,954,000	\$2,332,860	\$1,621,140									
2030	\$4,021,000	\$2,372,390	\$1,648,610									
2031	\$4,095,000	\$2,416,050	\$1,678,950									
2032	\$4,174,000	\$2,462,660	\$1,711,340									
2033	\$4,262,000	\$2,514,580	\$1,747,420									
2034	\$4,360,000	\$2,572,400	\$1,787,600									